

FY 2008 FINANCIAL TREND ANALYSIS

FINANCIAL FORECAST

Gallatin County, Montana

February 20, 2008

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FINANCIAL FORECAST

Introduction:

Any plan, especially a financial plan requires projections or forecasting. These forecasts must be based on known information supported by assumptions from current data projected into the future. The forecasts for this Plan are for revenue, expenses, employees, cash and reserves. The information contained in the following forecasts is based on the Budget Analysis and Financial Trend Sections of this report.

The time frame used included a five – year budget projection into the future. These forecasts provide the County with a frame of reference for evaluating the County’s financial condition, which helps facilitate the County Commission’s decision-making process.

Development of the Financial Forecast

Forecasts provides residents and the Commission a reference point for decisions.

Financial forecasts provide county residents and the County Commission with a reference point for evaluating the County’s financial condition as part of any decision making process. The Finance Office updates the forecasts annually with support from the County Clerk & Recorder, County Treasurer, County Commission, County Administrator and employees of Gallatin County.

These forecasts are developed using a baseline environment for Revenue, Expenses and Personnel. Baseline information relies primarily on historic growth patterns or inflationary projections on current service levels. Inflation and historical growth rates are used to predict changes to expenditures and revenues. These factors are adjusted by the elimination of items that will not reoccur – i.e. expansion of the dispatch function, or addition of probable items – historical approval of new employees, capital expenses and other items that have changed upward or downward during the previous five years.

Information regarding economic indicators and the performance of the economy are taken from the University of Montana (U of M), Bureau of Business and Economic Research (BBER), U.S. Department of Commerce Bureau of Economic Analysis and Woods & Poole.

The 33rd Annual Montana Economic Outlook Seminar report developed by the U of M, Bureau of Business and Economic Research projects the following for Gallatin County.

“OUTLOOK FOR GALLATIN COUNTY”

Paul Polzin, Director of the Bureau of Business and Economic Research (BBER) at the University of Montana says “Bozeman has consistently reported the fastest growth of Montana’s major counties over the last decade, but it could decelerate rapidly if construction and real estate go into freefall. The strong local growth in both industries may have inflated the reported county growth rates since 2001. ...Bozeman’s economy is based on strong fundamentals with diverse components that almost all experienced significant recent growth. ... Unlike the state’s largest counties, all trade center components (especially retail trade) continue to grow in Gallatin County. Non-resident travel and the federal government also experienced significant growth”.

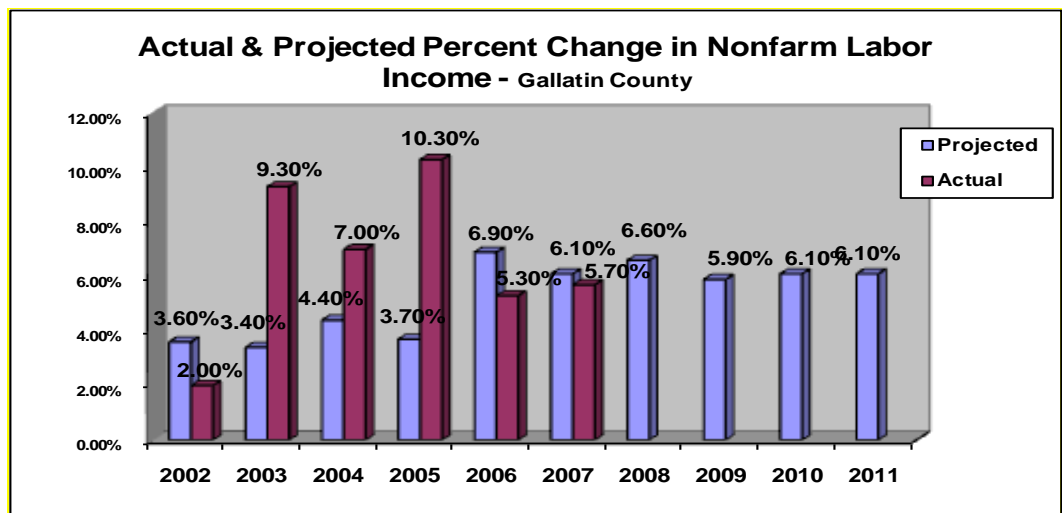
Gallatin County Financial Plan

The Bureau Non-farm Labor Income and Wages growth for the last 6 reports shows:

	2000 Report	2003 Report	2004 Report	2005 Report	2006 Report	2007 Report	2008 Report
2000	4.9%	7.0%	7.6%				
2001	4.0%	6.2%	6.0%				
2002	3.1%	4.2%	3.7%	4.6%			
2003	3.4%	3.4%	4.3%	6.5%	6.9%		
2004	3.5%	3.1%	4.4%	2.4%	7.3%	7.0%	
2005		3.2%	4.0%	EST. 3.7%	8.3%	10.3%	9.1%
2006		3.0%	3.5%	EST. 3.9%	EST 5.9%	5.3%	10.1%
2007			3.4%	EST. 3.7%	EST 5.3%	EST 6.1%	5.7%
2008				EST. 3.5%	EST 4.6%	EST 5.6%	EST 6.6%
2009				EST. 3.5%	EST 3.7%	EST 6.0%	EST 5.9%
2010						EST 6.0%	EST 6.1%
2011							EST 6.1%

The Bureau has estimated Labor Income growth in the county to be approximately 6% for the next 4 years (2008-2011). This indicates that the residents of the county will continue to see positive income compared to inflations.

The following Graph shows a history of Actual and Projected Percent Change in Non-farm Labor Income – Gallatin County, 2002-2011 from U of M (BBER).



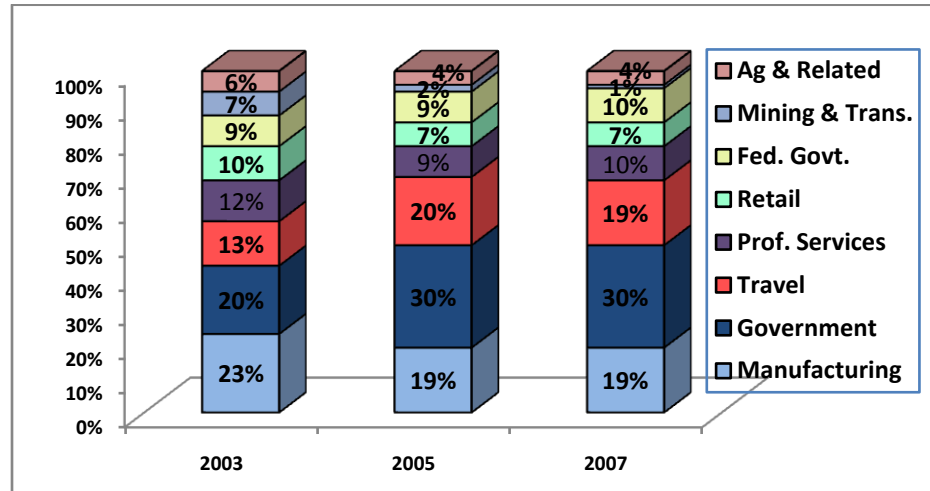
The preceding bar chart gives a historical perspective on the U of M BBER's accuracy. As can be seen the Bureau's estimate was under the actual increases in 3 of the 6 years where a comparison is available. In three years they overestimated Labor Income growth. More important is the fact that Labor income has grown by 37.6% (39.9% with compounding) in the last 5 years, meaning that the average growth in Nonfarm Labor Income has been about 7.5% per year.

A comparison of Employment for 1980, 2000 through 2007 shows a dramatic increase in the number of persons employed from 18,680 in 1980 to 47,928 in 2006 (Source – Montana Department of Labor & Industry, Research & Analysis Bureau).

	1980	1990	1995	2000	2004	2005	2006	2007
• Labor Force		29,459	36,891	41,033	45,580	46,943	49,069	49,228
• Gross Employment	18,680	27,882	35,819	39,526	44,047	45,785	48,129	47,928
• Unemployment Rate		5.4%	2.9%	3.7%	3.4%	2.5%	1.9%	2.5%

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The report shows that in recent years employment has changed, with decreases coming in Manufacturing 4%, Profession Services 2%, Federal Government 2%, Mining and Transportation 3% and Ag down by 2%. At the same time Government (MSU, Schools, Cities, County and Special Districts) have increased by 10% and Travel related employment has increased by 6%. The stacked bar below shows the changes by industry of employees for 2003, 2005 and 2007.



Information on potential growth for the County based on available data and sources shows:

➤ *The U of M projects that Gallatin County will have 86,000 residents by 2010.*

Woods and Poole for 2007 estimates growth in selected areas will be:

<u>Description</u>	<u>2000</u>	<u>2007</u>	<u>2010</u>
Population	67,790	83,730	91,500
Income / Capita (current \$)	\$25,139	\$32,839	\$36,474
Farm Earnings (Millions)	\$ 8.3	\$ 24.0	\$ 26.0
Non Farm Earn (Millions)	\$ 1,122	\$ 1,965	\$ 2,182

When making forecasts the lowest factor available is used. This is consistent with Gallatin County's conservative financial outlook and allows greater flexibility if factors have been overestimated.

A positive factor for the County is the growth in tourism. This continues the dramatic change from the report by the Institute for Tourism and Recreation Research showing Nonresident Visitor Trends at only .3% increase from 2003 to 2005. Yellowstone Park Visitation was up 9.8% in 2007. Entrance through West Yellowstone was up 7.02%. The Institute for Tourism and Recreation states that "When Yellowstone National Park is down, so is Montana nonresident tourism".

On another positive note, Air Traffic at Gallatin Field is up this year after being down almost 5% for calendar year 2006. For the time period 2000 – 2007, Gallatin Field had Passenger Boarding's and Deplanements increase from 482,539 to 670,874 (39.03% increase). This has propelled Gallatin Field being second behind Billings for airports in the state.

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The Bozeman Area Chamber has identified New Construction Valuation that happened during 2003-2007 and in 2008 will come on the tax roles as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 86 Million
2003	\$133 Million
2004	\$144 Million
2005	\$199 Million
2006	\$192 Million
2007	\$179 Million

Electrical Connections were 1,337 for 2007, compared to 1,639 for 2006 and 1,901 for 2005. This represents 31% reduction in 2007 following the 13.8% drop for the previous year. Gas connections decreased to 870 in 2007 (down 15.53%) compared to the 1,030 connection in 2006 and 1,078 in 2005. So Electrical connections are down 30% over two years and gas connections have decreased by 19.29% over the same period of time.

Forecast Summary

Current analysis indicates County revenue will not be sufficient to meet existing levels of service. Growth in wages and operations will require \$3.8 million dollars over the next five years without any new staff. With historical staff increases included, Personnel costs will increase by \$7.5 Million Dollars by FY 2013.

Need for Mill Levy Vote For Operating Expenses

One method to offset the projected shortfall is for County Elected Officials and Department Heads to discuss, plan for and recommend to the County Commission an operating budget mill levy vote. Statewide, the public has historically voted for well conceived and openly discussed requests for increased funding for specific needs.

The County currently balances budgets through the use of cash not needed for Operating Reserves. This is available only as long as revenue collections are greater than anticipated and expenses are below the amount budgeted. The FY 08 actual expenses for Personnel are projected to use 98.53% of the amount Budgeted.

Revenues are projected to grow by an average of 3.5%. Non Tax Revenues are projected to grow similar to Income / Capita yearly average with Tax Revenues growing at 5.0%. Population increases will drive a portion of revenues and 1.9% is added for those revenues.

Expenditures for Personnel (see graph) are projected to grow at 4.83% without new employees and 9.17% with new employees. However, Fringe Benefits are projected to grow at 4.7% for current employees and 8.89% with new employees, primarily from increases in Health Insurance costs, Worker's Compensation premiums and increase in retirement contributions.

Capital Outlay and Capital Reserves are assumed to grow at a 2.3% rate. The funding of the new Detention Center is not included in these calculations. The assumption is: if a Detention Center is approved, adequate bonds will be issued. Detention Center operating expense increases will be funded through New Construction Taxable Value increases from FY 05 through completion of project.

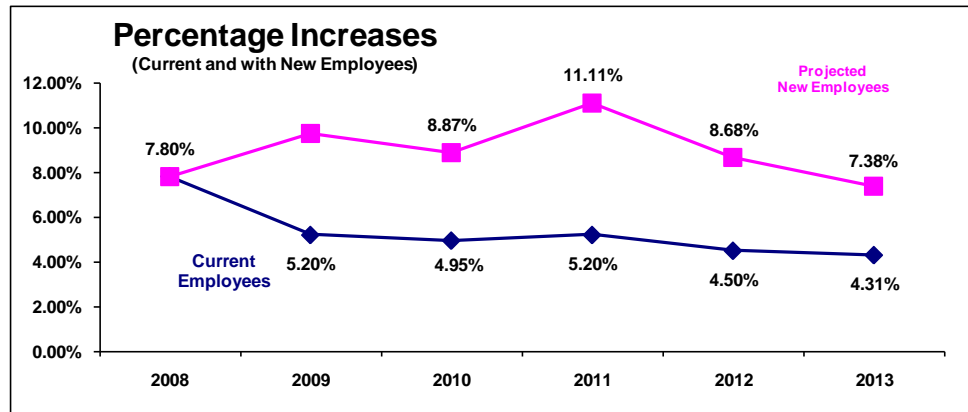
Operating Reserves are based on the recommendations within the Fiscal Policies. The current reserve of \$5,555,563 needs to increase to approximately \$6.1 million, an increase of \$540,000 over 5 years. Capital Reserves or Capital Equipment budgets are assumed to be funded through current millage or millage from New Construction Taxable Values. Compensated leave balances are assumed to continue to grow at or below the 6-30-07 amounts.

The graphs on the next page show the dramatic effect incremental personnel increases will have on the overall financial condition of the County. A simple 3.5% growth in revenues compared to a slightly higher growth in expenses, prior to the addition of new employee results in a \$811,474 shortfall in FY 09, which grows to a \$6.8 Million shortfall by 2013. This will begin adversely affecting the County's services in FY 10 and into the future.

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Growth in Wages:

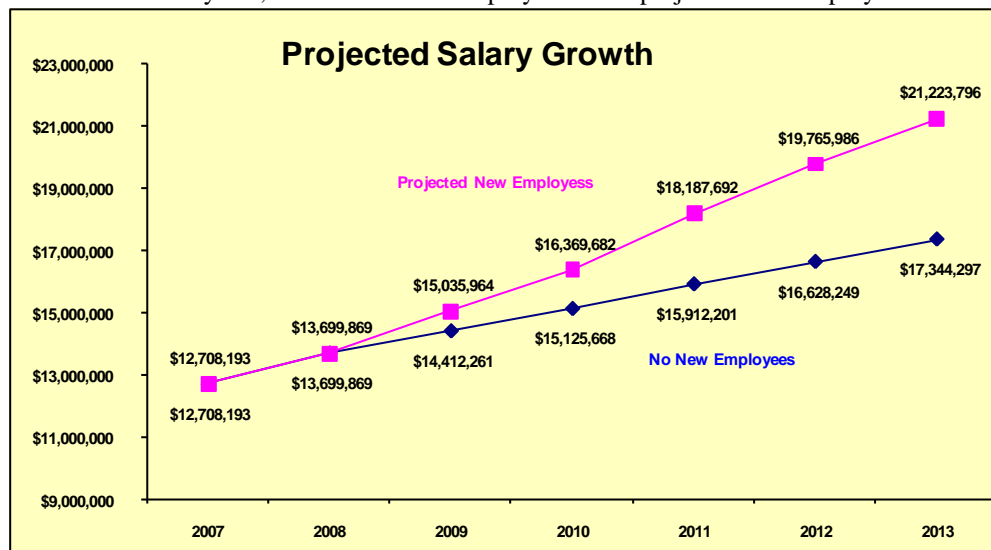
The graph that follows shows the percentage growth for current employees and projected new employees. The projections are based on historic levels of increased staff for **Tax Supported Funds**. The projections include staffing recommendations from the Criminal Justice Consultant.



The percentages show that wages will increase by an average of 4.83% for current employees (with normal turnover taken into consideration). This includes merit increases, longevity and wage adjustments. With projected new employees calculated into the percentages, the average increases equates to 9.15%. A 4.32% increase per year for new employees for the five years is projected.

Employee Growth in Dollars:

The next graph shows the growth in projected personnel budgets in dollars for the next five years, based on current employees and a projected new employee factor.



This graph shows the effect incremental increases have on salaries. To fund current employee wage adjustments the County Commission needs \$3.6 million in new dollars per year by FY 2013. To pay for projected new employees the Commission will need an additional \$3.9 million by FY 2013, for a total projected requirement of \$7.5 Million dollars per year.

Financial Forecast

Expense and Revenue Projections:

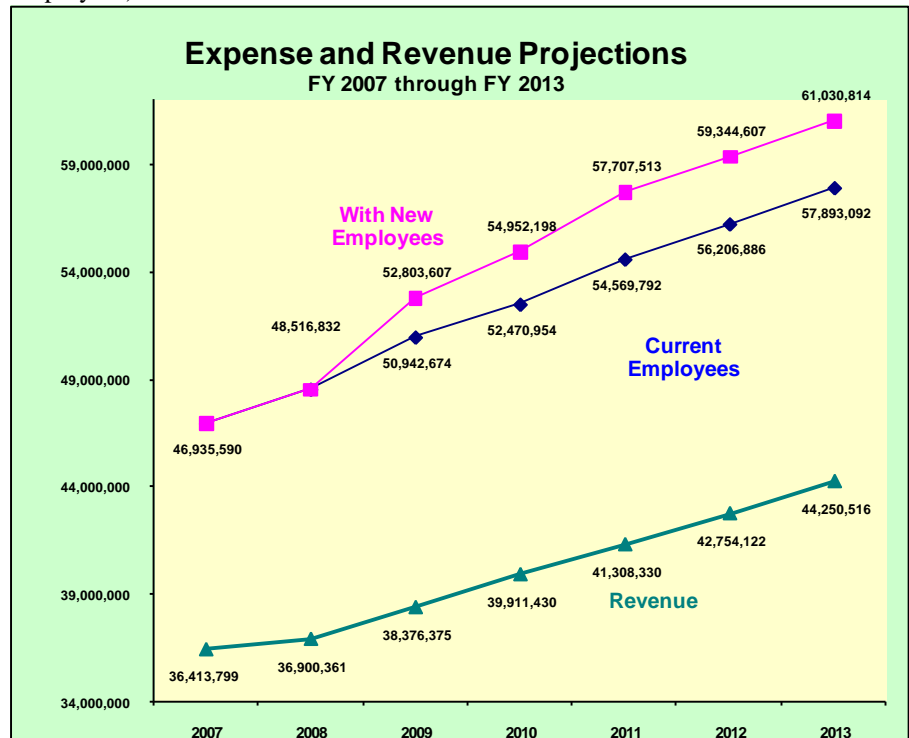
The following chart shows eight years of revenues, cash available for re-appropriation and expenses with the estimated shortfall for each year.

Five Years Projected Revenues, Cash and Expenditures

Year	2007 ACTUAL	2008 BUDGET	2009 ESTIMATE	2010 ESTIMATE	2011 ESTIMATE	2012 ESTIMATE	2013 ESTIMATE
Revenues	36,413,799	36,900,361	38,376,375	39,911,430	41,308,330	42,754,122	44,250,516
(Plus) Cash	16,036,440	17,408,034	11,754,824	9,409,342	8,468,408	7,621,567	6,859,410
(less) Expenses							
Current	46,935,590	48,516,832	50,942,674	52,470,954	54,569,792	56,206,886	57,893,092
W/ New		48,516,832	52,803,607	54,952,198	57,707,513	59,344,607	61,030,814
Cash End of Year (Shortfall) Current W/ New	5,514,650	5,791,563	(811,474) (2,672,408)	(3,150,182) (5,631,427)	(4,793,054) (7,930,776)	(5,831,197) (8,968,919)	(6,783,166) (9,920,888)

The shortfalls are cumulative and will be dramatically decreased as the County Commission balances each year's budget. These projections do not include major Capital Projects, but does anticipate continuation of full floating millage earmarked for Capital Projects or Detention Center Operations.

The graph below shows the projected Expenses (both Current and With New Employees) and Revenues.



Gallatin County Financial Plan

VII. Conclusion:

Gallatin County has funded Capital Projects, new staff and normal operating costs with revenue growth over the past 12 years. The principle changes to revenue came from reappraisal and changes to State laws associated with motor vehicles. Revenues also increased dramatically by the growth related fees – Land Record recording, Zoning Fees, etc. These revenues have decreased for the 1st 6 months of FY 08.

The County's ability to pay for inflationary costs has been adversely impacted because of past legislative actions. The impacts are significantly increased with population growth and higher demands for service when new residents are added into the equation.

Major factors that will affect the county for the foreseeable future include:

1. Criminal Justice System Recommendations – New Detention Facility, New Law and Justice Facility and Court Facilities.
2. Funding of Criminal Justice and County Office Space needs identified by consultant. This needs to include the assignment of space at the Guenther Memorial Building after full retrofit is completed.
3. Discussion on issuing Bonds versus operating levy vote for infrastructure needs (Detention Center, Airport Interchange, Road / Bridge needs).

During the next five budget years the County Commission will be confronted with:

1. Funding for Criminal Justice System needs approved in FY 05, FY 06 and FY 07 Budgets will adversely affect the County's ability to pay for wage adjustments, needed new staff, operational expenses and capital projects;
2. County Debt load will increase dramatically for the Open Lands Bond, currently approved loans; Detention Center Bond; proposed loans for Dispatch; Mental Health, Courthouse Annex and Road infrastructure capital needs will decrease funds available for operational expenses in the future – by an estimated \$595,000 per year when all loans are made.
3. Department needs will exceed revenue sources;
 - a. On the average 8% of the services currently being provided need to be reduced or eliminated without new sources of ongoing revenues;
 - b. Operating Reserves, Capital Reserves and Capital Projects will be under greater stress, resulting in deferring of needs causing increased costs now and into the future.
4. Cash carry over will decrease, resulting in fewer dollars available for re-appropriation;
5. Insurance costs, both liability (5% to 10% increase for FY 09) and health (estimated increase of 5%); and,
6. Most importantly, restrictions on money available for wage increases and staff increases will adversely affect our ability to attract and retain qualified employees.

In closing, while the information provided in this report seems to be doom and gloom, the intent is to act as a warning to the Public, County Commission, Elected Officials, Department Heads and Employees of Gallatin County that the inability to deal with the Detention Center, Office Space, Transportation System and similar known needs is adversely affecting the Finances of the County.

APPENDIX**INFORMATION****COMPARATIVE INFORMATION / STATISTICS:****CITY OF BOZEMAN CONSTRUCTION PERMITS**

— from Building Permit Report

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Single Family					
Units	287	327	332	324	278
Value in Millions	\$48	\$55.6	\$62.2	\$66.6	\$58.1
Duplexes					
Buildings	56	59	64	96	64
Units	112	118	128	192	128
Value in Millions	\$15.2	\$14.2	\$18.53	\$15.3	\$10.9
Multifamily					
Units	215	414	489	470	422
Value in Millions	\$17.0	\$35.4	\$50.05	\$53.7	\$49.1
Commercial					
Building	41	34	41	41	40
Value in Millions	\$29.5	\$26.3	\$49.34	\$34.1	\$51.2
Median Price	\$190,000	\$233,000	\$245,000	\$259,000	\$252,379

COUNTY PLANNING / ZONING ACTIVITY - from County Planning:

	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>
Preliminary Plats	18	27	18	26	36	40	
Land Use Permits	288	285	357	402	454	307	
Final Plats	21	17	17	23	19	33	
Lots Created							

CITY OF BELGRADE BUILDING — from Jason Karp

2003 **2004** **2005**

Information not available at this time

Gallatin County Financial Plan

The following information comes from the Bozeman Chamber of Commerce, Mr. David Smith, Executive Director

Population				
County	2000	2004	07/01/06	% Change
Yellowstone	129,352	134,717	138,213	6.85%
Missoula	95,802	99,018	101,417	5.86%
Flathead	74,471	81,217	85,314	14.56%
Cascade	80,357	79,849	79,385	-1.21%
Gallatin	67,831	75,637	80,921	19.30%
Lewis & Clark	55,716	57,972	59,302	6.44%
Ravalli	36,070	39,376	40,582	12.51%
Silver Bow	34,606	33,093	32,801	-5.22%

City	2000	2004	07/01/06	% Change
Billings	91,683	96,977	100,148	9.23%
Missoula	57,249	61,790	64,081	11.93%
Great Falls	56,697	56,503	58,536	3.24%
Bozeman	27,686	32,414	35,061	26.64%
Butte	33,892	32,393	32,110	-5.26%
Helena	25,898	27,196	25,885	-0.05%
Kalispell	14,900	16,765	19,432	30.42%
Belgrade	5,728	7,046	7,323	27.85%

Bank Deposits in Millions				
	Bozeman	% Change	Gallatin County	% Change
2007	1,635,000	33.75%		
2006	1,222,400	17.85%	1,550,000	17.85%
2005	1,037,244	12.42%	1,315,223	12.06%
2004	922,658	14.67%	1,173,694	15.75%
2003	804,655	13.63%	1,013,982	12.53%
2002	708,147	16.13%	901,110	15.48%
2001	609,766	15.22%	780,347	13.83%
2000	529,222	0.00%	685,528	5.03%
1999	529,222		652,684	

Population changes: U.S. Census Bureau.

	1990	2000	%	2002	%	2004	%	2006	%
	Census	Census	Change	Estimate	Change	Estimate	Change	Estimate	Change
▪ Belgrade	3,422	5,728	67.39%	6,588	15.01%	7,046	23.00%	7,323	27.84%
▪ Bozeman	22,660	27,509	21.40%	29,459	7.09%	32,414	17.83%	35,061	27.45%
▪ Manhattan	1,034	1,396	35.01%	1,421	1.79%	1,484	6.30%	1,492	6.88%
▪ Three Forks	1,203	1,728	43.64%	1,775	2.71%	1,874	8.45%	1,845	6.78%
▪ West Yellowstone	913	1,177	28.92%	1,201	2.04%	1,233	4.76%	1,232	4.67%
▪ Unincorporated (Rural)	21,231	30,293	42.68%	30,762	1.55%	31,585	4.27%	33,968	12.13%
▪ Gallatin County	50,463	67,831	34.42%	71,206	4.98%	75,637	11.51%	80,921	19.30%

Calculation of % Change is to the 2000 Census.

Gallatin County Gender / Age of Population Estimates - U. S. Census Bureau

								ESTIMATES		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Male	35,274	35,533	36,332	37,002	38,168	40,197	42,226	43,951	45,330	46,365
Female	32,557	32,745	33,480	34,104	35,160	36,928	38,695	40,197	41,399	42,301
	67,831	68,278	69,812	71,106	73,328	77,125	80,921	84,148	86,730	88,666
Under 15	12,292	11,589	12,053	12,258	12,385	12,948	13,163	13,688	14,108	14,423
16-44	35,816	35,816	36,688	36,702	37,401	38,607	39,778	41,364	42,633	43,585
45-64	13,953	13,953	15,127	16,025	17,190	18,836	19,887	20,680	21,315	21,790
65-84	5,067	5,770	5,161	5,288	5,463	5,797	7,124	7,408	7,635	7,806
85 Plus	703	703	783	833	889	937	969	1,008	1,039	1,062
	67,831	67,831	69,812	71,106	73,328	77,125	80,921	84,148	86,730	88,666
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Under 15	18.12%	17.09%	17.26%	17.24%	16.89%	16.79%	16.27%	16.27%	16.27%	16.27%
16-44	52.80%	52.80%	52.55%	51.62%	51.01%	50.06%	49.16%	49.16%	49.16%	49.16%
45-64	20.57%	20.57%	21.67%	22.54%	23.44%	24.42%	24.58%	24.58%	24.58%	24.58%
65-84	7.47%	8.51%	7.39%	7.44%	7.45%	7.52%	8.80%	8.80%	8.80%	8.80%
85 Plus	1.04%	1.04%	1.12%	1.17%	1.21%	1.21%	1.20%	1.20%	1.20%	1.20%

Bozeman Daily Chronicle

Article

Sunday, February 9, 2003

– Bozeman increased population 6,799 –1990 to 2002 (estimate):

Effects of 1,000 new residents to Bozeman economy

- Bozeman Police Officers 2 per
- Bozeman Firefighters 1 per
- Library Books –1,860 per
- Fitness Classes – 11 new per
- Restaurants – 8 per,
- Movie Screens – less than 1 per
- Newspaper Carriers – 3 per
- Schools – New Students 104 per
- Worship – 3 per
- Contractor's Licenses - 113 per
- Mail Routes – Bozeman 1 per
- Traffic Signals – 3.3 per
- Motor Vehicles – 680 per
- Liquor Licenses – 1.5 per
- Beer & Wine Licenses – 3 per
- Water Mains/Fire Service – 12 miles per
- Sewer Mains – 8 miles per